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C O N F I D E N T I A L AMMAN 002725

SIPDIS

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SUBJECT: FONMIN SAYS JORDAN TO PRESS PARIS CLUB FOR
LONG-TERM DEBT RELIEF DESPITE OBSTACLES.

Classified By: Amb. Edward W. Gnehm for reasons 1.5 (B) and
(D)

1. (C) During a May 27 meeting with the Ambassador and PolCouns on other topics (septel), Foreign Minister Marwan Muasher mentioned that he was leaving in twelve hours for Tokyo to talk about Jordan's need for debt relief. Jordan, Muasher argued, needs "debt reprofiling on a long term basis" so Jordan can implement an "exit strategy for debt" and thereby graduate from its series of IMF arrangements. Muasher said that he would be carrying a letter from King Abdullah to Prime Minister Koizumi asking for "long term restructuring (of Jordan's debt), both pre- and post-cutoff date, with a 10 year grace period and 30 year repayment schedule." The King, he continued, would send similar letters to G-8 heads of state.

2. (C) Jordan is determined, Muasher continued, to press the Paris Club for long-term debt restructuring: "We don't want a series of 2 year (Paris Club) arrangements." He said Jordan has done all the right things in terms of economic policy for over a decade and only needs to have a permanent solution to its debt burden (i.e., reprofiting) to take off economically. In addition, Muasher said there was a compelling "political argument" for such relief. Jordan has and will continue to do "positive things" on the Middle East Peace Process, and needs to show its people that these politically unpopular moves are reflected in improved living standards and growth. Furthermore, he argued that in addition to Pakistan's recent Paris Club deal, "you have done it before for Egypt" at a time (after the Gulf War) when Egypt's economic conditions were better than Jordan's are now. "Don't penalize us for doing well," he said.

3. (C) The Ambassador responded that the U.S. is sympathetic to Jordan's needs and that we support Jordan strongly both politically and economically. But, he said, Jordan's economic situation simply does not put it in the same category as Pakistan. The United States is doing its best to secure the best possible and most appropriate debt treatment for Jordan. However, such a treatment would have to be based on Jordan's demonstrable economic and financial needs. At the same time, the Ambassador noted, there does not appear to be support among Jordan's leading creditors, most importantly Japan, for the type of treatment Jordan continues to push for. The Ambassador added that Jordan should be working hard to agree with the IMF on a new economic program, as only this could serve as a basis for Paris Club action. Muasher dismissed these points, saying "the President told the King he supports this. Please don't tell me I'm going halfway around the world for nothing."

4. (C) COMMENT: We have always advised the Jordanians that they need to make a convincing financial and economic argument for the type of debt treatment they will seek from the Paris Club. What we continue to hear back are the political arguments advanced by Muasher and other senior officials, including Finance Minister Marto, who believe that the key to the Paris Club is a "political" decision by the United States. We believe that this view extends to the King and that the Jordanians will (wrongly) view our position in the Paris Club as a commentary on our bilateral political relationship with Jordan. The Jordanians will likely remain unconvinced by our financial points and to continue to press very hard for the long-term treatment they feel they need and deserve.
GNEHM